



**Mhlontlo Local Municipality
Annual Financial Statements
for the year ended 30 June 2019**

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Nature of business and principal activities

Mhlontlo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998) The municipality's operations are governed by:- Municipal Finance Management act 56 of 2003- Municipal Structure Act 117 of 1998- Municipal Systems Act 32 of 2000 and various other acts and regulations

Mayor

Cllr N Dywili

Speaker

Cllr M.G. Jara

Chief Whip

Cllr. N. M. Mvanyashe

Cllr. RN Matomane

Cllr. N.P.B. Ludidi

Cllr. S.S. Mbangata

Cllr. E. Pula

Cllr. V. Mnyanda

Cllr. M. Lingela

Cllr. G. O. Lamani

Cllr. G. Mazitshana

Cllr MJ Jikijela

Cllr. N.T. Ngquke

Cllr. L.D. Yalozo

Cllr. N. Nodlela

Cllr. N.R. Ngewu

Cllr. S.N.T. Matanzima

Cllr. A.L. Tono

Cllr. D. Guqa

Cllr. S. Bontsa

Cllr. G. Matyeni

Cllr. M Funo

Cllr. K. Mpula

Cllr. Z. Nondaka

Cllr. N. Zikolo

Cllr S. Qangani

Cllr. M. Ncaphayi

Cllr. M.D. Manzi

Cllr. T. Mgaweni

Cllr. S.S. Sopangisa

Cllr. M. Lingela

Cllr. Z. Botya

Cllr. Z. Ntshiba

Cllr. N. Gcaba

Cllr. B. Honono

Cllr. P. Mdinwa

Cllr. L.P. Dlova

Cllr. S. Ntukuntezi

Cllr Z. W Nondaka

Cllr. Z. Makinana

Cllr. Z. Renene

Cllr. B.B. Mthitshane

Cllr. M. Soyekwa

Cllr. M.N. Mphelili

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

	Cllr. M.S. Ngewu
	Cllr. M. Mfabela
	Cllr. M.S. Mathe
	Cllr. P.N. Mdemka
	Cllr. Q. Mandleni
	Cllr. S. Maham
	Cllr. N.V. Ncapayi
	Cllr. E.N. Sikwatsha
Traditional leaders	Nkosi Mongezi Majeke
	Nkosi Nkosikhona Matshanda
	Nkosi Momelezi Matyobeni
	Nkosi Sizwe Siyoyo
	Nkosi Ndumiso Lutuka
	Nkosi Victor Loyiso Majeke
	Nkosi Siviwe Mcelu
	Nkosazana Linda Ngudle
	Nkosazana Khanyisa Ngoni
	Nomalixole Singatha
Grading of local authority	3
Accounting Officer	S G Sotshongaye
Registered office	96 LG Mabindla Avenue Qumbu
Bankers	First National Bank - QUMBU
Auditors	Auditor General South Africa
Relevant legislation	Municipal Finance Management Act (Act no,56 of 2003) Division of Revenue Act Income Tax Act Value Added Tax Act Municipal Structures Act (Act no, 117 of 1998) Municipal Systems Act (Act no 32 of 2000) Municipal Planning and Performance Management Regulation Housing Act (Act no 107 of 1997) Municipal Property Rates Act (Act no 6 of 2004) Skills Development Act (Act no. 9 of 1999) Employment Equity Act (Act no, 55 of 1998) Unemployment Insurance Act (Act no 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations, 2011 Collective Agreements SALGBC Leave Regulations

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 12
Accounting Policies	13 - 30
Notes to the Annual Financial Statements	31 - 63

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
CIGFARO	Chartered Institute of Government, Finance, Audit and Risk Officers

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Responsibilities and Approval

I am required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and I am responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is my responsibility as the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

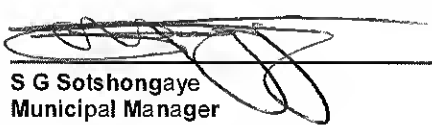
I acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. I am of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

I have reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

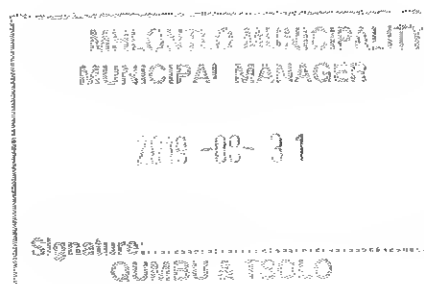
Although I am primarily responsible for the financial affairs of the municipality, I am supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 63, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2019 and were signed on its behalf by:


S G Sotshongaye
Municipal Manager

31/08/2019



Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality is engaged in Mhlontlo area in South Africa and is a category B municipality (local municipality) as defined by the Municipal Structures Act (Act 117 of 1998). The municipality's operations are governed by Municipal Finance Management Act (Act 56 of 2003), Municipal Structures Act (Act 117 of 1998), Municipal Systems Act (Act 32 of 2000), and various other Acts and Regulations and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached set of annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated deficit of R 541 893 536 and that the municipality's total assets exceed its liabilities by R 541 893 536.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Notes	2019	2018 Restated*
Assets			
Current Assets			
Inventories	2	-	6 185 527
Receivables from exchange transactions	3	625 578	111 915
Receivables from non-exchange transactions	4	5 951 805	5 110 163
VAT receivable	5	8 750 786	890 467
Cash and cash equivalents	6	96 275 402	79 989 308
		111 603 571	92 287 380
Non-Current Assets			
Investment property	7	31 772 000	12 032 178
Property, plant and equipment	8	480 930 922	531 766 498
Intangible assets	9	67 860	238 606
Heritage assets	10	210 810	210 810
		512 981 592	544 248 092
Total Assets		624 585 163	636 535 472
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	26 963 095	16 082 333
Employee benefit obligation	12	17 836 387	12 950 957
Unspent conditional grants and receipts	13	8 877 493	7 728 120
Provisions	14	19 000 000	8 800 000
		72 676 975	45 561 410
Non-Current Liabilities			
Employee benefit obligation	12	6 459 592	4 618 000
Provisions	14	3 555 060	3 119 934
		10 014 652	7 737 934
Total Liabilities		82 691 627	53 299 344
Net Assets		541 893 536	583 236 128
Accumulated surplus		541 893 536	583 236 128

* See Note 35

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

Figures in Rand	Notes	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	15	1 435 662	1 360 252
Rental of facilities and equipment		34 360	46 537
Agency services		1 267 972	1 098 594
Licences and permits		1 391 012	1 272 750
Other income	16	1 488 153	1 187 364
Interest received - investment	17	8 051 796	6 117 484
Fair value adjustments		19 739 822	-
Total revenue from exchange transactions		33 408 777	11 082 981
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	15 190 394	8 883 222
Transfer revenue			
Government grants & subsidies	19	217 259 928	235 050 653
Fines, Penalties and Forfeits		366 350	383 800
Commission received		247 534	213 720
Total revenue from non-exchange transactions		233 064 204	244 531 395
Total revenue		266 472 981	255 614 376
Expenditure			
Employee related costs	20	(89 134 298)	(81 098 856)
Remuneration of councillors	21	(18 709 400)	(17 670 510)
Depreciation and amortisation	22	(97 653 794)	(102 270 587)
Finance costs	23	(413 000)	(341 000)
Lease rentals on operating lease		(1 177 955)	(977 293)
Debt Impairment	24	(7 831 984)	723 899
Repairs and maintenance	26	(2 343 445)	(3 954 323)
Contracted services	25	(5 076 469)	(4 400 495)
Grants and subsidies paid	27	(13 117 787)	(13 061 509)
Loss on disposal of assets and liabilities	8	(1 082 742)	(1 272 659)
Actuarial losses	12	(1 209 592)	(128 000)
Inventories losses/write-downs	2	(6 185 527)	-
General Expenses	28	(63 644 458)	(59 846 367)
Interest on landfill site	14	(435 126)	(281 824)
Total expenditure		(307 815 577)	(284 577 304)
Deficit for the year		(41 342 596)	(28 962 928)

* See Note 35

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	612 199 056	612 199 056
Changes in net assets		
Surplus for the year	(28 962 928)	(28 962 928)
Total changes	(28 962 928)	(28 962 928)
Restated* Balance at 01 July 2018	583 236 132	583 236 132
Changes in net assets		
Surplus for the year	(41 342 596)	(41 342 596)
Total changes	(41 342 596)	(41 342 596)
Balance at 30 June 2019	541 893 536	541 893 536
Note(s)		

* See Note 35

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

Figures in Rand	Notes	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		(221 552)	16 685 641
Grants		217 259 926	232 087 406
Interest income		8 051 796	6 117 484
Other receipts		3 585 892	4 074 766
		<u>228 676 062</u>	<u>258 965 297</u>
Payments			
Employee costs		(90 486 474)	(96 167 575)
Suppliers		(73 760 280)	(56 769 066)
Finance costs		(413 000)	(341 000)
		<u>(164 659 754)</u>	<u>(153 277 641)</u>
Net cash flows from operating activities	30	<u>64 016 308</u>	<u>105 687 656</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(48 931 013)	(63 005 012)
Proceeds from sale of property, plant and equipment	8	1 200 799	300 415
Net cash flows from investing activities		<u>(47 730 214)</u>	<u>(62 704 597)</u>
Net increase/(decrease) in cash and cash equivalents		16 286 094	42 983 059
Cash and cash equivalents at the beginning of the year		79 989 308	37 006 249
Cash and cash equivalents at the end of the year	6	<u>96 275 402</u>	<u>79 989 308</u>

* See Note 35

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 377 378	-	1 377 378	1 435 662	58 284	44.1
Rental of facilities and equipment	46 572	764	47 336	34 360	(12 976)	44.2
Interest received (trading)	598 763	115 617	714 380	-	(714 380)	44.3
Agency services	1 170 279	-	1 170 279	1 267 972	97 693	44.4
Licences and permits	1 312 938	46 374	1 359 312	1 391 012	31 700	44.5
Other income - (rollup)	26 193 238	(25 847 144)	346 094	1 488 153	1 142 059	44.6
Interest received - investment	4 279 475	2 700 000	6 979 475	8 051 796	1 072 321	44.7
Gains on disposal of assets	-	139 827	139 827	-	(139 827)	44.8
Total revenue from exchange transactions	34 978 643	(22 844 562)	12 134 081	13 668 955	1 534 874	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	21 015 215	(4 414 268)	16 600 947	15 190 394	(1 410 553)	44.9
Transfer revenue						
Government grants & subsidies	171 124 814	1 282 490	172 407 304	217 259 926	44 852 622	44.10
Fines, Penalties and Forfeits	64 650	908 875	973 525	366 350	(607 175)	44.11
Other transfer revenue 1	-	-	-	247 534	247 634	44.12
Total revenue from non-exchange transactions	192 204 679	(2 222 903)	189 981 776	233 064 204	43 082 428	
Total revenue	227 183 322	(25 067 465)	202 115 857	246 733 159	44 617 302	
Expenditure						
Personnel	(95 075 129)	(1 274 287)	(96 349 416)	(89 134 298)	7 215 118	44.13
Remuneration of councillors	(25 626 004)	6 888 857	(18 737 147)	(18 709 400)	27 747	44.14
Depreciation and amortisation	(98 503 408)	(7 249 936)	(105 753 344)	(97 653 794)	8 099 550	44.15
Finance costs	-	-	-	(413 000)	(413 000)	44.16
Lease rentals on operating lease	-	-	-	(1 177 955)	(1 177 955)	44.17
Debt Impairment	-	(24 500 000)	(24 500 000)	(7 631 984)	16 868 016	44.18
Contracted Services	-	(27 008 535)	(27 008 535)	(5 076 469)	21 932 066	44.19
Transfers and Subsidies	-	(160 000)	(160 000)	(13 117 787)	(12 957 787)	44.20
General Expenses	(70 517 102)	11 055 459	(59 461 643)	(66 423 029)	(6 961 386)	44.21
Total expenditure	(289 721 643)	(42 248 442)	(331 970 085)	(299 337 716)	32 632 369	
Operating deficit	(62 538 321)	(67 315 907)	(129 854 228)	(52 604 557)	77 249 671	
Loss on disposal of assets and liabilities	-	-	-	(1 082 742)	(1 082 742)	
Fair value adjustments	-	-	-	19 739 822	19 739 822	
Actuarial gains/losses	-	-	-	(1 209 592)	(1 209 592)	44.22
Inventories losses/write-downs	-	-	-	(6 185 527)	(6 185 527)	
	-	-	-	11 261 961	11 261 961	
Deficit before taxation	(62 538 321)	(67 315 907)	(129 854 228)	(41 342 596)	88 511 632	

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(62 538 321)	(67 315 907)	(129 854 228)	(41 342 596)	88 511 632	
Reconciliation						

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	6 185 527	6 185 527	-	(6 185 527)	44.23
Receivables from exchange transactions	-	-	-	625 578	625 578	44.24
Receivables from non-exchange transactions	53 475 790	(36 991 071)	16 484 719	5 951 805	(10 532 914)	44.25
VAT receivable	-	598 070	598 070	8 750 786	8 152 716	44.26
Cash and cash equivalents	36 997 413	(11 942 273)	25 055 140	96 275 402	71 220 262	44.27
	90 473 203	(42 149 747)	48 323 456	111 603 571	63 280 115	
Non-Current Assets						
Investment property	-	23 290 000	23 290 000	31 772 000	8 482 000	44.28
Property, plant and equipment	505 467 482	(49 340 367)	456 127 115	480 930 922	24 803 807	44.29
Intangible assets	-	238 606	238 606	67 860	(170 746)	44.30
Heritage assets	-	210 810	210 810	210 810	-	
	505 467 482	(25 600 951)	479 866 531	512 981 592	33 115 061	
Total Assets	595 940 685	(67 750 698)	528 189 987	624 585 163	96 395 176	
Liabilities						
Current Liabilities						
Payables from exchange transactions	8 288 728	4 441 849	12 730 577	26 963 091	14 232 514	44.31
Employee benefit obligation	-	-	-	17 836 387	17 836 387	44.32
Unspent conditional grants and receipts	-	-	-	8 877 493	8 877 493	44.33
Provisions	-	-	-	19 000 000	19 000 000	44.34
	8 288 728	4 441 849	12 730 577	72 676 971	59 946 394	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	6 459 592	6 459 592	44.35
Provisions	-	-	-	3 555 060	3 555 060	44.36
	-	-	-	10 014 652	10 014 652	
Total Liabilities	8 288 728	4 441 849	12 730 577	82 691 623	89 961 048	
Net Assets	587 651 957	(72 192 547)	515 459 410	541 893 540	26 434 130	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	587 651 957	(72 192 547)	515 459 410	541 893 540	26 434 130	

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

The impairment of consumer debtors and other trade receivables exists predominantly due to the possibility that these debts will not be recovered. Receivables were assessed individually and grouped together where applicable at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining this allowance estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile. The impairment is calculated after grouping all the financial assets of similar nature and risk ratings and by calculating historic payments ratios for the groupings and by assuming that the future payment ratios would be similar to the historic payment ratios.

In determining the recoverability of receivables from non-exchange and receivables from exchange transactions the municipality considers any change in the credit quality of the debtor from the date that credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of debtors impairment.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Land is measured at cost.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Infrastructure	Straight line	
Roads and paving	Straight line	10-15 years
Pedestrian malls	Straight line	10-15 years
Sewerage	Straight line	10-15 years
Buildings	Straight line	30 years
Recreational facilities	Straight line	30 years
Security	Straight line	30 years
Halls	Straight line	30 years
Libraries	Straight line	30 years
Parks and gardens	Straight line	30 years
Other assets	Straight line	30 years
Specialised vehicles	Straight line	2-15 years
Other vehicles	Straight line	2-15 years
Office equipment	Straight line	2-15 years
Furniture and fittings	Straight line	2-15 years
Bins and containers	Straight line	2-15 years
Computer equipment	Straight line	2-15 years
Other plant and equipment	Straight line	2-15 years
Landfill site	Straight line	30 years

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3-6 years

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.8 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.8 Financial instruments (continued)

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer debtors	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from non-exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.9 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.10 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Employee benefits (continued)

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.15 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.19 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Budget information

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.23 Related parties (continued)

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
2. Inventories		
Residential houses	-	6 185 527
In the current year the residential houses were derecognised after application of IGRAP 18.		
3. Receivables from exchange transactions		
Refuse Removal	8 893 050	7 750 924
Allowance for Impairment	(8 267 472)	(7 639 009)
	625 578	111 915

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
3. Receivables from exchange transactions (continued)		
Current assets	625 578	111 915
Refuse		
Current (0-30 days)	233 770	111 394
31 - 60 days	223 034	214 911
61 - 90 days	110 712	104 331
91 - 120 days	109 584	103 662
121 - 365 days	8 215 950	7 216 626
Impairment	(8 267 472)	(7 639 009)
	625 578	111 915
 Summary of debtors by customer classification		
Consumers		
Current (0 - 30 days)	233 770	109 519
31 - 60 days	223 034	211 159
61- 90 days	110 712	102 471
91 - 120 days	109 584	101 803
121 - 365 days	-	7 178 188
	677 100	7 703 138
 Industrial/ commercial		
Current (0 - 30 days)	1 935	1 492
31 - 60 days	1 935	2 985
61- 90 days	968	1 479
91 - 120 days	968	1 479
121 - 365 days	29 559	36 154
	35 365	43 589
 National and provincial government		
Current (0 - 30 days)	21 042	383
31 - 60 days	17 480	766
61- 90 days	8 991	380
91 - 120 days	8 035	380
121 - 365 days	478 584	2 288
	534 132	4 197
 Total		
Current (0 - 30 days)	233 770	111 394
31 - 60 days	223 034	214 911
61- 90 days	110 712	104 331
91 - 120 days	109 584	103 662
121 - 365 days	8 215 950	7 216 626
Subtotal	8 893 050	7 750 924
Less: Allowance for impairment	(8 267 472)	(7 639 009)
	625 578	111 915
 Reconciliation of allowance for impairment		
Opening balance	7 639 009	6 073 484
Contributions to allowance	628 463	1 565 525
	8 267 472	7 639 009

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
4. Receivables from non-exchange transactions		
Other taxes	28 396 160	20 809 361
Allowance for impairment	(24 127 253)	(17 123 731)
	(19 858 346)	(13 438 101)
Rates		
Current (0 - 30 days)	953 091	(14 960 797)
31 - 60 days	927 662	906 281
61 - 90 days	458 193	451 979
91 -120 days	457 260	444 594
121 - 365 days	27 105 429	35 385 913
Impairment	(22 856 425)	(16 093 981)
	7 045 210	6 133 989
Summary of debtors by customer classification		
Consumers		
Current (0 - 30 days)	420 890	131 565
31 - 80 days	405 977	362 752
81 -90 days	198 992	185 011
91 -120 days	198 101	177 478
121 - 365 days	7 408 995	5 027 140
	8 632 955	6 883 946
Industrial / commercial		
Current (0 - 30 days)	496 224	1 586 000
31 - 60 days	485 709	539 443
81 -90 days	241 213	264 925
91 -120 days	241 171	264 811
121 - 365 days	12 505 170	7 708 297
	13 969 487	10 363 476
National and provincial government		
Current (0 - 30 days)	35 978	(16 678 362)
31 - 60 days	35 976	4 087
61 -90 days	17 988	2 043
91 -120 days	17 988	2 305
121 - 365 days	7 191 265	22 650 475
	7 299 193	5 980 548
Total		
Current (0 - 30 days)	953 091	(14 960 797)
31 - 60 days	927 662	906 281
61 -90 days	458 193	451 979
91 -120 days	457 260	444 594
121 - 365 days	27 105 429	35 385 913
Subtotal	29 901 635	22 227 970
Less: Allowance for impairment	(22 856 425)	(16 093 981)
	7 045 210	6 133 989

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

4. Receivables from non-exchange transactions (continued)

Reconciliation of allowance for impairment

Opening balance	16 093 981	18 762 532
Contributions to allowance	6 762 444	(2 668 551)
	22 856 425	16 093 981

Sundry Customers

Traffic fines	1 225 893	1 240 393
Payroll debtors	100 749	100 749
Less: Impairment	(1 270 828)	(1 029 750)
	55 814	311 392

5. VAT receivable

VAT	8 750 786	890 467
-----	-----------	---------

VAT receivable balance includes the monies due from SARS for the VAT periods October 2017, May 2018 and June 2018 as well as VAT on trade debtors' and trade creditors' balances at year end.

SARS performed an audit for the period of [redacted] and the municipality owed an amount of [redacted] and this was settled via direct debits that were journalised by SARS on refunds that were due to the municipality for the periods of January, February, March and April 2018 respectively and this was settled and therefore the municipality is no longer owing SARS.

An amount of R5 380 080.13 has been received in the current year and therefore recoverability of the amount receivable from SARS is not remote.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	449	809
Bank balances	1 350 757	9 169 535
Short-term deposits	94 924 196	70 818 964
	96 275 402	79 989 308

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

6. Risk management (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
FNB -Business Call Account	53 570 347	45 678 111	22 963 143	53 570 347	45 678 111	22 963 143
Revolving Fund - 61399068117						
FNB - Commercial Fixed Maturity	-	-	55 472	-	-	55 472
Notice : Electrification Prog-74231136926						
FNB - Business NSTD Call:	23 418 070	8 192 987	6 672 776	23 418 070	8 192 987	6 672 776
Equitable Share-62027945809						
FNB-Public Sector Cheque-Gqunu Lots -62020395390	566 199	497 763	571 251	566 199	497 763	571 251
FNB Public Cheque Account - MIG-62170844221	10 491 196	5 196 952	134 905	10 491 196	5 196 952	134 905
FNB Commercial Money Market Investment :FMG-62280641244	1 472 826	235 493	9 985	1 472 826	235 493	9 985
FNB-Commercial Call Account: LED-62075571713	396 183	396 111	396 304	396 183	396 111	396 304
FNB-7 Day Interest Plus:7 Day Notice-7466814934	10 000	10 000	10 000	10 000	10 000	10 000
FNB-Commercial Call Account: Municipal IDP-62075570137	1 235 684	437 197	10 000	1 235 684	437 197	10 000
FNB-Commercial Money Market Investment: Housing Project-62280645345	735 299	735 521	735 713	735 299	735 521	735 713
Market Investment-MSIG 62280642416	9 392	9 614	9 806	9 392	9 614	9 806
FNB-Commercial Fixed Term Maturity Notice -Electrification Program:74638477254	3 019 001	9 429 215	-	3 019 001	9 429 215	-
Public Sector Cheque Account-FNB 62023382526	1 244 435	8 759 964	5 321 696	1 350 758	9 169 535	5 434 411
Total	96 168 632	79 578 928	36 891 051	96 274 955	79 988 499	37 003 766

7. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	31 772 000	-	31 772 000	12 032 178	-	12 032 178

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	12 032 178	19 739 822	31 772 000

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	12 032 178	12 032 178

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

7. Investment property (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Valuation was performed by an independent valuer, not connected to the municipality and has experience in location and category of investment property being valued.

The valuation was based on open market value for existing use. These assumptions are based on current market conditions.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

8. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment	Carrying value
Land	12 813 541	-	12 813 541	12 813 541	-	12 813 541
Buildings	27 424 877	(12 931 558)	14 493 319	27 424 877	(12 160 744)	15 264 133
Infrastructure	1 224 586 672	(940 463 246)	284 123 426	1 196 235 856	(854 611 373)	341 624 483
Community	57 311 450	(23 295 737)	34 015 713	57 311 450	(20 086 955)	37 224 495
Other property, plant and equipment	30 327 820	(9 642 956)	20 684 864	30 128 492	(8 663 659)	21 464 833
Work in progress	109 801 542	-	109 801 542	98 172 084	-	98 172 084
Landfill Site	8 048 125	(3 049 608)	4 998 517	8 048 125	(2 845 196)	5 202 929
Total	1 470 314 027	(989 383 105)	480 930 922	1 430 134 425	(898 367 927)	531 766 498

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	12 813 541	-	-	-	-	-	12 813 541
Buildings	15 264 133	-	-	-	(770 814)	-	14 493 319
Infrastructure	341 624 483	-	(1 362 493)	35 370 351	(90 111 572)	(1 397 343)	284 123 426
Community	37 224 495	-	-	-	(1 601 094)	(1 607 688)	34 015 713
Other assets	21 464 833	1 931 204	(921 048)	-	(1 779 375)	(10 750)	20 684 864
Work-in-progress	98 172 084	46 999 809	-	(35 370 351)	-	-	109 801 542
Landfill site	5 202 929	-	-	-	(204 412)	-	4 998 517
	531 766 498	48 931 013	(2 283 541)	-	(94 467 267)	(3 015 781)	480 930 922

The following projects have taken a significantly longer period to complete than initially expected:-

Project Name	Amount	Reasons
1. Construction - Town Hall	R 24 641 795	Project estimate was too low. Additional budget has been allocated for the 2020 financial year.
2. Access Road - Ngqakacheni	R 18 402 952	Project was delayed because of climatic conditions and additional scope of works.
3. Construction - Toleni Co-operative Development Centre	R 2 283 857	The municipality did not have sufficient budget in 2018. Budget has been provided for in 2019.
4. Building Entrance - Tsitsa Falls	R 490 800	The project was not budgeted for in the 2018 financial year. Budget provided for in 2019.
5. Sports Field - Mvumelwano Sports Field	R 19 319 328	Project was delayed by an underlying rock which was discovered during the construction of works.

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	12 813 541	-	-	-	-	-	12 813 541
Buildings	15 688 016	-	-	347 094	(770 977)	-	15 264 133
Infrastructure	412 975 856	-	(1 033 215)	27 611 780	(93 716 665)	(4 213 273)	341 624 483
Community	37 362 384	-	-	1 451 497	(1 589 386)	-	37 224 495
Other assets	21 374 443	2 294 354	(538 999)	-	(1 630 689)	(34 276)	21 464 833
Work-in-progress	67 026 797	60 710 658	-	(29 565 371)	-	-	98 172 084
Landfill Site	5 253 243	-	(860)	155 000	(204 454)	-	5 202 929
	572 494 280	63 005 012	(1 573 074)	-	(97 912 171)	(4 247 549)	531 766 498

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

8. Property, plant and equipment (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 853 954	(1 786 094)	67 860	1 853 954	(1 615 348)	238 606

Reconciliation of Intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	238 606	(170 746)	67 860

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	349 453	(110 847)	238 606

10. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated Impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	210 810	-	210 810	210 810	-	210 810

Reconciliation of heritage assets 2019

	Opening balance	Total
Heritage assets	210 810	210 810

Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets	210 810	210 810

Age and/or condition of heritage assets

The municipality owns the following heritage asset :
The mayoral chain.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

11. Payables from exchange transactions

Trade payables	21 362 379	12 488 125
Payments received in advance	2 517 820	2 399 950
Unallocated deposits	429 670	212 927
Payroll Debtors	1 402 471	194 382
Creditor Accruals	1 250 755	786 949
	26 963 095	16 082 333

12. Employee benefit obligation

Bonuses

Bonuses are paid out to all employees, excluding some senior managers, in the month of their birthdays each year and are based on a 13th monthly basic salary.

Defined Benefit Plan

Long service awards

The obligation in respect of the long service awards is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2019 by One Pangaea Financial using the Projected Unit Credit Method.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement of 01 February 2018, signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary and 5 days accumulative leave
- After 10 Continuous Years of Service - 4% of Basic Annual Salary and 10 days accumulative leave
- After 15 Continuous Years of Service - 8% of Basic Annual Salary and 20 days accumulative leave
- After 20 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 25 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 30 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 35 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 40 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 45 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Current service cost	1 841 592	555 000
----------------------	-----------	---------

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

12. Employee benefit obligation (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Bonus accrual	2 214 010	1 536 185
Leave pay accrual	15 622 377	11 414 772
Long service awards	6 459 592	4 618 000
	24 295 979	17 568 957
 Non-current liabilities	 6 459 592	 4 618 000
Current liabilities	17 836 387	12 950 957
	24 296 979	17 568 967

Reconciliation of employee benefits - 2019

	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 536 185	-	677 825	2 214 010
Leave pay accrual	11 414 772	15 622 377	(11 414 772)	15 622 377
	12 950 957	15 622 377	(10 736 947)	17 836 387

Reconciliation of employee benefits - 2018

	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 662 368	-	(126 183)	1 536 185
Leave pay accrual	8 755 046	11 414 772	(8 755 046)	11 414 772
	10 417 414	11 414 772	(8 881 229)	12 950 957

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	4 618 000	4 213 000
Benefits paid	(291 000)	(551 000)
Net expense recognised in the statement of financial performance	2 132 592	956 000
	6 459 592	4 618 000

Net expense recognised in the statement of financial performance

Current service cost	510 000	487 000
Interest cost	413 000	341 000
Actuarial (gains) losses	1 209 592	128 000
	2 132 592	956 000

Other assumptions

The valuation basis assume that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonuses payable) will be 1.0% more than the corresponding discount rate in the long term.

The effect of one percent increase or decrease in salary inflation rates is as follows:

Cost trends rates would have the following:

Amounts for the current and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Defined benefit obligation	6 459 592	4 618 000	4 213 000	4 017 000	3 132 000

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MIG	4 840 254	2 011 693
Gqunu lots	695 106	695 106
Qumbu Pilot Housing	62 525	62 525
LED	15 000	15 000
OR Tambo grant	74 405	74 405
INEP electrification	2 661 161	4 340 349
EPWP - DEDEAT	529 042	529 042
	8 877 493	7 728 120

Movement during the year

Balance at the beginning of the year	7 728 120	2 255 533
Additions during the year	52 697 000	80 701 000
Income recognition during the year	(51 547 627)	(75 228 413)
	8 877 493	7 728 120

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 19 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

14. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	3 119 934	435 126	3 555 060
Legal proceedings	8 800 000	10 200 000	19 000 000
	11 919 934	10 635 126	22 555 060

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	2 838 110	281 824	3 119 934
Legal proceedings	9 420 777	(620 777)	8 800 000
	12 258 887	(338 953)	11 919 934
Non-current liabilities		3 555 060	3 119 934
Current liabilities		19 000 000	8 800 000
		22 555 060	11 919 934

Environmental rehabilitation provision

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites is expected to be closed in 2043, after which rehabilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The landfill sites valuation was performed by DB Grobler. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

The landfill sites are nearing the end of their useful lives and the ground and ground water on the entire site are thus considered to be contaminated and not just the portions in use, i.e. the provision provides for the cost of rehabilitating the entire site and not just the portions used up to financial year end. The entire site would need to be rehabilitated due to waste distributed across the entire site over the years since opening thereof. Thus, as provided in GRAP 19 where it states that the provision should only be raised to the extent that the costs would need to be incurred, it is considered that the full cost of rehabilitation would need to be incurred to rehabilitate the sites.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

The DWAF Minimum Requirements do not specify the timeframe in which the landfill sites must be rehabilitated after closure.

15. Service charges

Refuse Charges -Business	412 762	387 908
Refuse charges - Households	896 399	851 497
Refuse charges - Government	126 501	120 847
	1 435 662	1 360 252

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

16. Other income

Advertisig fees	73 225	62 905
Over/under deposits	63	2
Sundry income	20 957	16 105
Clearance certificates	752	1 033
Cemetery fees	20 609	10 279
Pound fees	122 775	140 899
Pound Sales	1 094 596	729 691
Tender fees	-	27 697
Business licences	116 782	58 751
Refunds	10 842	133 493
Building plan fees	27 552	6 509
	1 488 153	1 187 364

17. Investment revenue

Interest revenue

Bank	6 772 456	5 186 823
Interest charged on trade and other receivables	1 279 340	930 661
	8 051 796	6 117 484

18. Property rates

Rates received

Residential	2 814 791	2 610 022
Commercial	4 356 350	5 553 917
Government	8 154 773	872 711
Small holdings and farms	13 782	13 966
Less: Income forgone	(149 302)	(167 394)
	15 190 394	8 883 222

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

19. Government grants and subsidies

Operating grants

Equitable share	165 930 000	159 378 999
Gqunu lots farms	-	231 650
Library Assistance	500 000	350 000
Financial Management Grant	2 415 000	2 345 000
EPWP casual workers	1 786 291	1 417 000
OR Tambo Grant	-	525 595
Electrification program	5 696 188	9 659 651
EPWP DEDEAT	-	222 209
Tsitsa Falls Fire Management Grant	-	500 000
Training LG SETA	367 008	443 242
	176 694 487	175 073 346

Capital grants

Municipal Infrastructure Grant	40 565 439	59 977 307
	217 259 926	235 050 653

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2018: R -), which is funded from the grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	2 011 693	-
Current-year receipts	43 394 000	61 989 000
Conditions met - transferred to revenue	(40 565 439)	(59 977 307)
	4 840 254	2 011 693

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Gqunu Lots

Balance unspent at beginning of year	695 106	926 756
Current-year receipts	-	(231 650)
	695 106	695 106

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Qumbu Pilot Housing

Balance unspent at beginning of year	62 525	62 525
--------------------------------------	--------	--------

Conditions still to be met - remain liabilities (see note 13).

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

19. Government grants and subsidies (continued)

Provide explanations of conditions still to be met and other relevant information.

LED

Balance unspent at beginning of year	15 000	15 000
--------------------------------------	--------	--------

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Finance Management Grant

Current-year receipts	2 415 000	2 345 000
Conditions met - transferred to revenue	(2 415 000)	(2 345 000)

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Expanded Public Work Program

Current-year receipts	1 821 000	1 417 000
Conditions met - transferred to revenue	(1 821 000)	(1 417 000)

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

OR Tambo Grant

Balance unspent at beginning of year	74 405	-
Current-year receipts	-	600 000
Conditions met - transferred to revenue	-	(525 595)
	74 405	74 405

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Integrated Electification Program

Balance unspent at beginning of year	4 340 349	-
Current-year receipts	4 017 000	14 000 000
Conditions met - transferred to revenue	(5 696 188)	(9 659 651)
	2 661 161	4 340 349

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

19. Government grants and subsidies (continued)

Expanded Public Works (DEDEAT)

Balance unspent at beginning of year	529 042	529 042
--------------------------------------	---------	---------

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

20. Employee related costs

Basic	43 102 657	43 966 954
Bonus	4 043 634	3 384 286
Medical aid - company contributions	4 961 239	4 808 959
UIF	388 080	379 962
WCA	-	1 604 061
SDL	787 956	660 844
Other payroll levies	16 824	17 375
Leave pay provision charge	5 060 123	4 065 577
Short term benefit 2	9 175 438	2 387 783
Defined contribution plans	6 460 743	5 727 753
Travel, motor car, accommodation, subsistence and other allowances	9 141 362	8 471 239
Overtime payments	1 016 536	688 643
Long-service awards	290 153	(21 565)
Acting allowances	43 738	76 613
Housing benefits and allowances	2 932 310	2 592 381
Allowance- standby	880 054	1 014 949
Contribution provision for bonus	-	(126 183)
Temporal employees	144 054	476 003
Allowance -cellphone	689 397	921 022
	89 134 298	81 096 656

Remuneration of municipal manager

Annual Remuneration	837 002	846 805
Car Allowance	305 844	306 663
Contributions to UIF, Medical and Pension Funds	2 125	2 125
Backpay	36 838	29 373
Skills Development Levy	11 828	14 006
Leave encashment	-	212 576
Housing Allowance	64 317	5 361
Other	-	61 175
	1 257 952	1 478 084

Remuneration of chief finance officer (N. Boti)

Annual Remuneration	711 369	865 796
Car Allowance	245 949	206 310
Contributions to UIF, Medical and Pension Funds	2 125	2 125
Housing allowance	56 968	63 471
Backpay	30 245	27 526
Cell phone Allowance	-	12 500
Skills Development Levy	12 117	10 664
Leave Pay	216 379	-
	1 275 152	1 188 392

Remuneration of director- Community Services(M.J. Yilo)

Annual Remuneration	687 222	408 498
Car Allowance	251 113	110 526
Contributions to UIF, Medical and Pension Funds	2 125	1 063
Cell phone Allowance	-	44 942
Skills Development Levy	9 712	8 004
Housing Allowance	52 808	-
Leave pay	-	242 835
Backpay	30 245	-
	1 033 225	815 868

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

20. Employee related costs (continued)

Remuneration of Director- Infrastructure Services (T.P. Mase)

Annual Remuneration	404 132	561 649
Car Allowance	141 446	209 160
Contributions to UIF, Medical and Pension Funds	9 445	1 638
Housing Allowance	26 404	30 582
Backpay	-	27 526
Leave pay	237 571	188 424
Skills Development Levy	7 947	9 675
Cellphone allowance	5 349	-
	832 294	1 028 654

Remuneration of Director - Corporate Services (W.Zwane)

Annual Remuneration	505 036	-
Car Allowance	184 324	-
Contributions to UIF, Medical and Pension Funds	1 771	-
Housing Allowance	139 924	-
Backpay	21 603	-
Skills Development Levy	8 140	-
	860 798	-

Remuneration of Director Corporate Services- (L.Matiwane)

Annual Remuneration	-	561 649
Car Allowance	-	209 160
Contributions to UIF, Medical and Pension Funds	-	1 638
Housing Allowance	-	30 582
Backpay	-	27 526
Leave pay	-	188 424
Skills Development Levy	-	9 675
	-	1 028 654

Remuneration of director - LEDPARD (Z. Zipete)

Annual Remuneration	687 222	726 822
Car Allowance	251 113	264 022
Contributions to UIF, Medical and Pension Funds	4 313	2 125
Housing Allowance	52 808	30 743
Backpay	30 245	27 526
Skills Development Levy	9 734	12 268
Re-imbursive travelling	-	29 088
Leave pay	-	201 448
	1 035 435	1 294 042

21. Remuneration of councillors

Mayor	872 149	854 227
Chief Whip	665 213	1 117 187
Speaker	706 600	201 175
Other Councillors	16 462 963	15 497 921
	18 706 925	17 670 510

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

22. Depreciation and amortisation

Property, plant and equipment	97 483 048	102 159 720
Intangible assets	170 746	110 847
	97 653 794	102 270 567

23. Finance costs

Interest on long service awards	413 000	341 000
---------------------------------	---------	---------

24. Debt impairment

Consumer debtors	7 631 984	(723 899)
------------------	-----------	-----------

25. Contracted services

Security Services	5 076 469	4 400 495
-------------------	-----------	-----------

26. Repairs and maintenance

Buildings	303 984	993 898
Plant and equipment	1 151 165	1 194 752
Network and hardware support	-	82 200
Public safety	-	354 000
Street lights and access roads	201 983	925 584
Motor vehicle repairs	686 313	403 879
	2 343 445	3 954 323

27. Grants and subsidies paid

Other subsidies

Electrification Program	6 322 734	8 589 515
EPWP Program	65 129	612 956
Indigent Subsidy	6 374 094	2 698 916
Financial Management Grant	262 760	749 739
OR Tambo-Grant	93 070	76 248
EPWP-DEDEAT	-	26 000
Tsitsa Fire Management Grant	-	308 135
	13 117 787	13 061 509

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

28. General expenses

Advertising	365 965	418 695
Audit fees	3 378 118	3 341 472
Audit committee expenses	250 968	189 403
Consulting and professional fees	3 603 297	3 799 599
Cemetery tagging	652 881	754 423
Entertainment	2 139 174	2 386 611
Fines and penalties	11 456	10 405
Animal Feed	-	58 517
Hiring charges	3 896 181	1 793 845
Insurance	560 609	697 776
Conferences and seminars	4 500	88 254
Medical expenses	196 800	59 472
Motor vehicle expenses	183 610	296 141
Hiring charges	4 570	11 760
Fuel and oil	1 698 378	1 628 192
Postage and courier	176	2 075
Printing and stationery	2 055 869	1 557 836
Protective clothing	260 871	218 661
Special Projects	7 321 610	7 024 041
Office expenses	1 907 020	834 037
Subscriptions and membership fees	833 319	959 688
Telephone and fax	4 094 420	5 018 961
Training	1 921 273	2 355 416
Travel - local	6 487 664	6 728 240
Office expenses	2 248	15 042
Electricity purchases	2 109 793	1 338 188
Tourism development	104 200	33 428
Audit committee expenses	223 802	178 902
Ward committee stipend	6 287 429	6 424 230
Venue expenses	25 629	-
Contribution for legal fees	12 786 780	4 328 686
Survey and Planning	275 850	7 296 391
	63 644 458	59 846 367

29. Auditors' remuneration

Fees	3 378 118	3 341 472
------	-----------	-----------

30. Cash generated from operations

Deficit	(41 342 596)	(28 962 928)
Adjustments for:		
Depreciation and amortisation	97 653 794	102 270 567
Gain on sale of assets and liabilities	1 082 742	1 272 659
Fair value adjustments	(19 739 822)	-
Debt impairment	7 631 984	(723 899)
Movements in retirement benefit assets and liabilities	6 727 022	2 938 543
Movements in provisions	10 635 126	(338 953)
Changes in working capital:		
Inventories	6 185 527	50 000
Receivables from exchange transactions	(513 662)	370 272
Consumer debtors	(7 631 984)	723 899
Other receivables from non-exchange transactions	(841 642)	6 767 717
Payables from exchange transactions	10 880 766	10 168 518
VAT	(7 860 320)	5 678 674
Unspent conditional grants and receipts	1 149 373	5 472 587
	64 016 308	105 687 656

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

31. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Short term deposits	94 924 196	70 818 965
Receivables from exchange transactions	625 578	111 915
Receivables from non-exchange transactions	5 954 623	5 110 163

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Price risk

The municipality is not exposed to commodity price risk as it does not hold commodities on an open market platform.

32. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	625 578	625 578
Receivables from non-exchange transactions	-	5 951 805	5 951 805
Bank balances	1 350 757	-	1 350 757
Short term deposits	94 924 196	-	94 924 196

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

32. Financial instruments disclosure (continued)

	96 274 953	6 577 383	102 852 336
Financial liabilities			
	At amortised cost	Total	
Payables from exchange transactions	26 963 095	26 963 095	

2018

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	111 915	111 915
Receivables from non-exchange transactions	-	5 110 163	5 110 163
Bank balances	9 170 344	-	9 170 344
Short term deposits	70 818 964	-	70 818 964
	79 989 308	5 222 078	85 211 386

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	16 082 333	16 082 333

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

33. Contingencies

Bank guarantees	135 000	135 000
Pending legal claims	83 211 831	71 811 831
	83 346 831	71 946 831

1. NTANTANA NOKHITHA AND 3 OTHERS// MHLONTO LOCAL MUNICIPALITY CASE

NO 3412/2017

An interdict application that was brought on urgent basis interdicting the Building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Nomkhitha Ntantana and 3 others and applicants lodged an appeal to supreme court of appeals wherein they are granted the interim relief and the matter is still pending for the main application before high court Mthatha and we still wait for trial date that will be located the registrar in a opposed motion court

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R900 000.00 (nine hundred thousand rand only)

2. QGESHA NOZOLILE & 4 OTHERS// MHLONTLO LOCAL MUNICIPALITY CASE N/O 3424/2014

An interdict application that was brought on urgent basis interdicting the building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Nomkhitha Ntantana and 3 others and applicants lodge an appeal to supreme court of appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court Mthatha and we still wait for a trial date that will be located by the registrar in a opposed motion court.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R400 000.00 (four hundred thousand rand only)

3. MAVUSO KHOLISWA// MHLOTLO LOCAL MUNICIPALITY CASE NO 3434/2014

An Interdict application that was brought on urgent basis interdicting the building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Nomkhitha Nantana and three others and applicants lodged an appeal to supreme court of appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court Mthaha and were still wait for a trial date that will be located by registrar in a opposed motion court.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R800 000.00 (eight hundred thousand rand only)

4. SOJADA NOMALUNGE & OTHER// MHLONTLO LOCAL MUNICIPALIT-CASE NO. 3407/2014

An interdict application that was brought on argent basis interdicting the building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Nomkhitha Nantana and three others and applicants lodged an appeal to supreme court of appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court Mthaha and were still wait for a trial date.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

33. Contingencies (continued)

municipality is an approximately amount of R800 000.00 (eight hundred thousand rand only)

5. MAKAZIWE MGOBOZI// MHLONTLO LOCAL MUNICIPALITY CASE NO.70/2017

This is an application that was brought on agent basis by the applicants seeking that Mhlontlo Local Municipality must attend to the linkage of water in particular area in town. The municipality opposed this application and the matter has been argued on the 04th June 2019 and the Judgement was against the municipality, and the municipality was ordered to pay cost to certain extent other will be paid by O.R Tambo municipality.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 400 000.00 (one million four hundred thousand rand only)

6. GWELE SINETHEMBA//MHLONTLO LOCAL MUNICIPALITY CASE NO 988.2016

This application that was brought on agent basis by Mhlontlo Local Municipality against Sinethemba Gwele and 8 others who were erecting site at Qumbu ERF 102. The municipality successfully got an interim interdict that all the applicants or whoever who is erecting structures at ERF 102 Qumbu is hereby interdicted. The matter is still pending before high court Mthatha and still waiting for date in an-opposed motion court. The matter appeared before court for case management flow, pretrial minute and join minute, we are now waiting for trial date on an opposed motion court roll.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 400 000.00 (one million four hundred thousand rand only)

7. CHIEF MZWAMANDLA HORATIUS NJIKELANA & ONOTHER// MHLONTLO MUNICIPALITY CASE NO 3456/2016

This is an application that was brought on agent basis by Chief Mzwamandla Horatius Njikelana & another against Mhlontlo Local Municipality claiming demolition their structures at commonage of ERF 102 Qumbu. The municipality opposed their application and the matter is still pending before high court Mthatha. We are still waiting for trial date to be allocated by the registrar.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 400 000.00 (one million four hundred thousand rand only)

8. NTANTANA NOMKHITHA & 128 ANOTHERS// MHLONTLO LOCAL MUNICIPALITY CASE NO.5437/17

In this matter the Municipality is being sued by Nomkhitha and 128 & others for an amount of R15 500 000. (Fifteen million five hundred thousand rand only) which are damage they claim that it occurred when their house were demolished at Tsolo 500. The municipality defended the matter.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R 1 400 000.00 (one million four hundred thousand rand only)

9. NGILANA PHATHISWA// MHLONTLO LOCAL MUNICIPALITY CASE NO.28/2018

This was an application that was made by application that was made by applicant interdicting the employment of Busisiwe Jara to a post of procurement clerk or creditor's clerk and interim relief was granted in the absence of the municipality because they were not served by any paper. The municipality is now opposing the interim relief and the matter was argued

wherein, the municipality lost the application. A notice for leave to appeal was filed to higher court and we are still waiting for the magistrate reason to find against the municipality.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R800 000.00 (eight hundred thousand rand only).

10. NGE PHUMZILE//MHLONTLO LOCAL MUNICIPALITY CASE NO.2651.2018 .

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

33. Contingencies (continued)

In this matter the municipality is being sued by plaintiff an amount of R871 771.55 (eight hundred and seventy one rand fifty-five cent) alleging that she was employed as executive mayor personal assistant. The municipality has defended the matter and the matter is pending before court.
Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

11. MHLONTLO MUNICIPALITY//NGEKE MZUKVUKILE AND OTHERS UNDER CASE NO:11/2019

This is an application that was brought on agent basis by Mhlonlo local municipality against Ngeke Mzuvukile Fezile Majobela, and other unknown parties who were erecting sites at Qumbu Town hall. The municipality successfully got an interim interdict that all the applicants or whoever whose erecting structure at Qumbu is hereby interdicted. The matter is still pending before high court mthatha and still waiting for a date in an opposed motion court. The matter appeared before court for case management flow material minute and join minute we are now waiting for a trial date on an opposed motion court roll.
Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

12. MHLONTLO MUNICIPALITY// THE PROPRIETOR:BOJA BOJA HARDWARE: TSOLO AND ANO CASE NO.6003.18

This is an application that was brought on semi urgent basis by Mhlontlo Local Municipality against Boja Boja Hardware at ERF 186 Tsole and others wherein an unlawful hardware and manufacturing of bricks was opened by respondent in a residential site.

The municipality successfully won the matter that those who are conducting an unlawful business at ERF 186 must be removed.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

13. MHLONTLO MUNICIPALITY// THE PROPRIETOR:BOJA BOJA HARDWARE: TSOLO AND ANO CASE NO.6003A.18

This is an application that was brought on semi urgent basis by Mhlontlo Local Municipality against Boja Boja Hardware at ERF 87 Tsole and others wherein an unlawful hardware and manufacturing of bricks was opened by respondent in a residential site.

The municipality successfully won the matter that those who are conducting an unlawful business at ERF 87 must be removed.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

14. MHLONTLO MUNICIPALITY//THE PROPRIETOR: SIYABONGA HARDWARE: TSOLO AND ANOTHER CASE NO.5534/18

This is an application that was brought on semi urgent basis by mhlontlo local municipality against siyabonga hardware at ERF 228 Tsole and others manufacturing of bricks was opened by respondent in a residential site.

Municipality successfully won the matter that those who are conducting an unlawful business at ERF 228 must be removed.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

33. Contingencies (continued)

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

15. MHLONTLO LOCAL MUNICIPALITY/ MR IQBAL FAISAL & ALI CASE NO.5531/18

This is an application that was brought on semi urgent basis by mhlontlo local municipality against MR 72 Qumbu and ALI Hardware and others wherein an unlawful Hardware and manufacturing of bricks was opened by respondent in a residential site.

The municipality successfully won the matter that those who are conducting an unlawful business at ERF 72 must be removed.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

16. MHLONTLO LOCAL MUNICIPALITY//THE PROPRIETOR: KUVULIWE HARDWARE QUMBU & THE MANGER KUVULIWE HARWARE QUMBU CASE NO 5533/18

This is an application that was brought on semi urgent basis by mhlontlo local municipality against kuvuliwe hardware at ERF 350 Qumbu and others wherein an unlawful hardware and manufacturing of bricks was opened by respondent in a residential site.

The municipality successfully won the matter that those who are conducting an unlawful business at ERF 350 must be removed.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

17 PROPRIETOR JABULANI HARDWARE TSOLO; THE MANAGER: JABULANI HARDWARE TSOLO//MHLONTLO LOCAL MUNICIPALITY CASE NO 5532/2018*,5533/2018, 5734/2018 & 5736/2018

This is an application that was brought on semi urgent basis by Mhlontlo Local Municipality against Jabulani Hardware at ERF 186,87,228,350, and 72 Tsolo and Qumbu wherein an unlawful hardware and manufacturing of bricks was opened by respondent in a residential site.

The municipality successfully won the matter that those who are conducting an unlawful business at ERF 186, 87, 228, 350 and 72 must be removed.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

18 MUHAMMADAHSAN//MHLONTLO LOCAL MUNICIPALITY CASE NO.2526/16

This is an application that was brought on semi urgent basis by Mhlontlo Local Municipality against Muhammad ahsan against mhlontlo local municipality wherein an unlawful hardware and manufacturing of bricks was opened by applicant in a residential site.

The municipality lost his matter because they did not follow the law when they remove the applicant I.E

MUHAMMADAHSAN.

Incase the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1200 000.00 (one million two hundred rand only).

19. TOH TSOLO JUNCTION (PTY) LTD//MHLONTLO LOCAL MUNICIPALITY CASE NO.463/2011

The municipality is being sued for an amount totalling to R48 340 059 in damages for an alleged cancellation of supply and development agreement.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

34. Related parties

Relationships

Accounting Officer
Mayor
Speaker
Chief Whip
Executive committee

Refer to accounting officer's report note

Cllr. N. Dywili
Cllr. M.G. Jara
Cllr. N.M. Mvanyashe
Cllr. V. Mnyanda
Cllr. E. Pula
Cllr. S.S. Mbangata
Cllr. L. Yalez
Cllr. N.P.B. Ludidi
Cllr. M. Lingela
Cllr. G. Mazitshana
Cllr. Z. Nondaka

Ordinary Councillors

Cllr. RN Matomane
Cllr. G. O. Lamani
Cllr. M.J. Jikijela
Cllr. N.T. Ngquke
Cllr. N. Nodlela
Cllr. N.R. Ngewu
Cllr. S.N.T. Matanzima
Cllr. A.L. Tono
Cllr. D. Guqa
Cllr. S. Bontsa
Cllr. M. Funo
Cllr. K. Mpula
Cllr. N. Zikolo
Cllr. S. Qangani
Cllr. M. Ncaphayi
Cllr. M.D. Manzi
Cllr. T. Mgaweni
Cllr. S.S. Sopangisa
Cllr. M. Lingela
Cllr. Z. Botya
Cllr. Z. Ntshiba
Cllr. N. Gcaba
Cllr. B. Honono
Cllr. P. Mdinwa
Cllr. L.P. Dlova
Cllr. S. Ntukuntezi
Cllr. Z. W Nondaka
Cllr. Z. Makinana
Cllr. Z. Renene
Cllr. B.B. Mthitshane
Cllr. M. Soyekwa
Cllr. M.N. Mpheleli
Cllr. M.S. Ngewu
Cllr. M. Mfamele
Cllr. M.S. Mathe
Cllr. P.N. Mdemka
Cllr. Q. Mandleni
Cllr. S. Maham
Cllr. N.V. Ncapayi
Cllr. E.N. Sikwatsha

Members of key management

Chief Financial Officer
Infrastructure Services Manager
Local Economic Development Manager
Community Services Manager

Ms N. Boti
Mr. T.P. Mase
Mr. Z. Zipete
Mr. Y.M. Yilo

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

34. Related parties (continued)

Corporate Services Manager

Mr. W. Zwane

Transactions with related parties were concluded at arm's length. Apart from the remuneration, no further transactions occurred with councillors and section 56 managers.

35. Prior period errors

- - - 3

The current year comparatives have been adjusted as follows:

Statement of Financial Performance	Previously Stated	Adjustments	Column heading	Restated 2018	Reference
Income					
Expenditure					
General expenses	52 747 976	7 098 367	-	59 846 343 1	
Statement of Financial Position					
Assets					
VAT Receivable		7 988 858	(7 098 391)	890 467	1
Liabilities					
Provisions		-	-	-	3
	7 988 858	(7 098 391)		890 467	

The comparative figures for 2018 have been restated as a result of -

General expenses

1. The restatements was due to an audit by South African Revenue Services (SARS) of prior period VAT returns submitted and thus 2012-2018 years of assesment and they had to set off the disallowed invoices .

VAT

1. The restatements was due to an audit by South African Revenue Services (SARS) of prior period VAT returns submitted and thus 2012-2018 years of assesment and they had to set off the disallowed invoices.

36. Unauthorised expenditure

Opening Balance	99 339 679	94 771 105
Unauthorised expenditure - Current year	12 822 451	4 568 574
	112 162 130	99 339 679

Opening unauthorised expenditure has been investigated. Current year unauthorised expenditure has been reported, but not investigated..

37. Fruitless and wasteful expenditure

Opening Balance	1 271 780	1 261 275
Current year	10 809	10 505
	1 282 589	1 271 780

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

37. Fruitless and wasteful expenditure (continued)

Fruitless and wasteful expenditure incurred relates to interest charged on overdue accounts. The expenditure is under investigation.

38. Irregular expenditure

Opening balance	249 140 782	218 496 091
Add: Irregular Expenditure - current year	39 474 100	30 644 691
	288 614 882	249 140 782

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Current year expenditure on projects as previously identified as irregular	Expenditure under investigation	7 593 754
Increase on employees' salaries by an additional 12,5% and back pay from January 2015 to March 2019	Expenditure under investigation	30 750 747
		38 344 501

39. Expenditure under investigation

Opening Balance	82 097 043	82 097 043
-----------------	------------	------------

This item has not been included in the irregular expenditure expense calculation because it is impractical in terms of GRAP 1 to determine whether the expenditures are indeed irregular. Additional text

These amounts relate to payments made for tenders dating from 2011/12 to 2014/2014 financial years where contract files had incomplete information. This is due to the fact that there is no proper filing space in the institution and documents have been searched and could not be found. Additional text

40. Deviation from supply chain management regulations

Goods and services to the value of R5,897.52 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

A register containing the details of the deviations is available for inspection.

41. Operating lease

This committed expenditure relates to capital and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

- Due within one year	943 702	1 258 269
- Due within 2 to 5 years	-	943 702
	943 702	2 201 971

Operating lease payments represent rentals payable by the municipality for certain office equipment.

Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

42. Commitments

Already contracted for but not provided for

Capital expenditure

• Infrastructure Assets	103 190 530	32 607 350
• Other Assets	-	153 588
	103 190 530	32 760 938

Operational expenditure

• Goods and services	2 849 037	7 407 318
• Operating leases	1 251 092	2 520 398
	4 100 129	9 927 716

This committed expenditure relates to roads and other infrastructure developments, building of town halls and other goods and services and will be financed by available bank facilities, retained surpluses, as well as Grant funding and existing cash resources.

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	702 075	925 690
Amount paid - current year	(702 075)	(925 690)
	-	-

Audit fees

Current year subscription / fee	3 378 118	3 418 016
Amount paid - current year	(3 378 118)	(3 418 016)
	-	-

PAYE and UIF

Current year subscription / fee	16 697 637	15 303 894
Amount paid - current year	(15 404 982)	(15 303 894)
	1 292 655	-

Pension and Medical Aid Deductions

Current year subscription / fee	18 899 188	17 513 349
Amount paid - current year	(18 899 188)	(17 513 349)
	-	-

VAT

VAT receivable	8 750 786	890 467
----------------	-----------	---------

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

44. Budget differences

Material differences between budget and actual amounts

STATEMENT OF FINANCIAL PERFORMANCE

44.1 Variance is trivial and immaterial

44.2 Qumbu community hall was under renovations during the year under assessment and rental was compromised..

44.3 Interest received on debtors not provided for in the budget

44.4 Variance is trivial and immaterial.

44.5 Variance is trivial and immaterial

44.6 Implementation of by-laws on pound and business licences .

44.7 Grants were not fully utilised at year end.

44.8 Under estimation on budget.

44.9 Variance is trivial and immaterial"

44.10 "Under expenditure on Municipal infrastructure grant and electrification. Electrification grant received in March 2019. .

44.11 Application of IGRAP 1 at year end..

44.12 Commission on payroll not budgeted for.

44.13 Variance is trivial and immaterial.

44.14 Variance is trivial and immaterial

44.15 Variance is trivial and immaterial

44.16 Finance costs not budgeted for

44.17 Lease expenses budget included under general expenses

44.18 Over estimation on a provision for bad debts because of debt status at the beginning of the financial year.

44.19 National Treasury budget and reporting format difference.

44.20 Grants' expenditure included on general expenses

STATEMENT OF FINANCIAL POSITION

44.23 Implementation of IGRAP 18 on inventory.

44.24 B-schedule does not split receivables.

44.25 Under provision on budget.

44.26 This was due to SARS audit .

44.27 There was an under expenditure on the majority of projects because of procurement challenges that were experienced during the financial year

44.28 Fair value adjustments on investment properties.

44.29 Variance is trivial and immaterial.

44.30 Impairment of intangible assets.

44.31 Creditor payments were affected during the financial year because of the absence of the CFO.

44.32 Employee benefit obligation budget is included under provisions in current liabilities.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

44. Budget differences (continued)

44.33 Municipality's plan was that of 100% expenditure on all grants. However, INEP and MIG grant were not fully utilised because of delays in the projects.

44.34 Budget included under provisions (Current liabilities)

44.35 Budget included under provisions in non-current liabilities.

44.36 Budget included under provisions in non-current liabilities.t

45. Events after the reporting date

No significant events have occurred after the reporting date.